

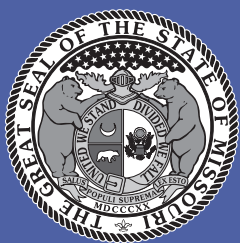


Missouri Secretary of State
Securities Division



Protecting Your Investments

What You Should Know



MISSOURI PROTECTS INVESTORS

SECRETARY OF STATE JAY ASHCROFT ■ SECURITIES DIVISION
INVESTOR PROTECTION HOTLINE ■ 800-721-7996

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How We Serve Investors

For more than 80 years, the Securities Division in the Office of the Secretary of State has been protecting Missouri investors from securities fraud and regulating the sale of securities. Today, the Securities Division remains committed to its mission of investor protection and education.

We work every day to provide Missourians the information they need to consider whether certain investments are suitable for their financial goals, to help them watch out for ill-advised investments and to encourage people to report any suspicious experiences. As a result of our investigative efforts, investors may receive restitution.

The division itself is administered by the commissioner of securities, who is appointed by the secretary of state. The commissioner serves as the director of the division and oversees investigations into the offer and sale of securities and investment products. The commissioner also serves as an officer at hearings that arise from those investigations.

The Missouri Securities Division

How We Work

The Missouri Securities Division has three sections: Registration, Enforcement and Investor Education. The **Registration Section** regulates firms and professionals conducting business in Missouri as securities agents or investments adviser representatives, and reviews and registers the securities products they offer. The **Enforcement Section** enforces Missouri's securities laws by investigating complaints and possible violations when they occur. The **Investor Education Section** works to develop and present a comprehensive education program that seeks to make Missouri investors wise, safe and informed.

The duties and authority of all three sections come from the Missouri Securities Act of 2003, Missouri's "Blue Sky Laws." This act provides the framework for registering brokers and investment advisers, reviewing and registering securities offerings and taking action in situations where an investor might have been wronged, or a registered professional violated the law.

The Registration Section

The Registration Section reviews, registers and maintains information about securities and those who sell securities in the state of Missouri. Securities include a wide range of investments: stocks and bonds, mutual funds, limited partnerships in real estate, oil and gas offerings and investment contracts. Almost any type of profit-making venture that depends upon the efforts of the seller to realize a profit could be a security and must be registered with the Missouri Securities Division or qualify for an exemption from registration.

What happens when securities are registered?

Registration Section staff members conduct various reviews of the securities that companies and their agents will offer in Missouri. Many securities, including the stocks or bonds of large companies or governmental bodies, and mutual fund offerings, are regulated by the SEC, and thus Missouri doesn't review them. The Registration Section's review is intended to ensure all important and necessary information is available to potential investors, as well as to determine whether an offering is "fair, just and equitable" before it can be presented to the public.

How do professionals register?

The Registration Section uses a variety of methods to evaluate the eligibility of an investment adviser or broker seeking to do business in Missouri. In the required application, professionals seeking registration must disclose their work history, scores on required exams (i.e., the Series 7, Series 63, Series 65 or Series 66), the firm with whom they will be affiliated and any past complaints, lawsuits and/or past disciplinary action in any state or by any organization. Registered securities agents and investment adviser representatives are required to update their registration, and the Division maintains complete records on every firm and professional. Missourians can use these records to research someone who approaches them about investing.

Missouri is home to some of the world's most well-known brokerage firms, as well as more than 162,000 individual securities agents and investment adviser representatives. Each must renew their registration on an annual basis. Annually, the Registration Section regulates approximately:

- 151,266 broker-dealer agents
- 1,602 broker-dealer firms
- 11,566 investment adviser representatives
- 1,822 investment adviser firms

The Registration Section includes an exam unit that performs onsite examinations of broker-dealers and investment advisers in Missouri to ensure that both firms and employees are in compliance with Missouri laws. In-house examinations help uncover deficiencies and improve the services provided by broker-dealer and investment adviser firms.

The Enforcement Section

This section handles complaints, tips and information provided by investors, other agencies and professionals concerning misconduct in the offer and sale of securities, as well as the enforcement of antifraud provisions of the Missouri Securities Act. Each year, our staff receives hundreds of complaints concerning questionable investment advice or shady investment schemes. Staff members include experienced attorneys and investigators with background in the securities and financial services industries.

After an enforcement investigator has received and investigated a complaint from an investor or other source, the Enforcement Section can request that the commissioner of securities deny, suspend or revoke a registration, or that the commissioner issue an order requiring the investigation's target to cease and desist the questionable activity.

As part of the secretary of state's enforcement efforts, the commissioner of securities can conclude an investigation and action by ordering the payment of civil penalties, reimbursement of the Enforcement Section's costs, and discipline of a registered professional. The commissioner may also order victim restitution, meaning the repayment of the investor's money, and a payment to the state's investor education and protection fund. The commissioner may also refer a matter for criminal investigation to local prosecutors, the Missouri attorney general or a variety of federal agencies, including the SEC, the FBI, the U.S. Postal Inspector or the U.S. Attorney.

A Focus on Protecting Senior Investors and Other Vulnerable Citizens

Through outreach and presentations across the state, the Investor Protection Division educates Missourians about current threats to investors, steps our office takes to combat fraud and resources available to protect citizens from investment scams. The division works with organizations, local officials and other state agencies to promote measures that protect investors, prosecute scam artists and prevent investment fraud. The Investor Education Section works to dedicate resources so all Missourians are informed about our commitment to protecting the financial well-being of seniors.

In addition to these initiatives the Enforcement Section works daily to:

- Investigate matters concerning investments by seniors who are victims of investor fraud or unsuitable recommendations
- Identify issues of importance and alert Missouri seniors about areas of interest and fraud trends
- Provide seniors and other vulnerable citizens with resources and information about investment issues
- Solicit tips and other information from the public regarding scams and fraud
- Work in collaboration with community groups and programs

The Investor Education Section

The Investor Education Section creates and promotes educational initiatives designed to educate and protect investors from investment fraud. Efforts include:

- planning, organizing, presenting and/or participating in events throughout the state focused on financial literacy and education;
- answering more than 1,000 calls each year to the Investor Protection Hotline (800-721-7996) from inves-

tors taking steps to protect their hard-earned money from fraud;

- publishing, promoting and distributing a wide variety of informational publications;
- hosting *www.MissouriProtectsInvestors.com*, an interactive website dedicated to educating and protecting Missouri investors.

The Investor Education staff is available to community organizations, civic groups, schools, churches and others interested in hosting an informational presentation on investor protection and the precautions for protecting against investment fraud. Contact the Investor Education office at 1-800-721-7996 or email securities@sos.mo.gov for more information.

If you have an investment complaint:

We take all complaints seriously, so do not hesitate to contact our office if you suspect you have been defrauded. Anytime you talk with someone about investing your money or making an investment, make sure you pay attention to what the person says, ask lots of questions, check out the adviser or person pitching the investment by calling the Investor Protection Hotline at (800) 721-7996, take notes on what was said and offered, and get a copy of all marketing and promotional materials. Also, after an investment is made, make sure you keep all documents from the transaction.

Many times, an investor doesn't know until much later that their investment was a scam or involved misconduct. If you suspect that you've been defrauded, you'll want to make sure you have all documents, and it might help to write down everything you can remember. That way, you'll have items to help with the investigation that might serve as evidence in an enforcement action.

When preparing for a complaint or making a call to the Securities Division, here are some tips to help you generate a useful report:

1. Use some cues to jog your memory. If you can think about what you were wearing, where you might have been going, a landmark that might have been in the background, a person you saw or another conversation you had that day, it might help you remember the situation better.
2. Recall as many details as you can. Know what you were offered, what you gave, what you learned, what you

were told about use of your money, any mentioned risks, contracts you might have signed or been shown and any prospectus you received. Think about materials or the lack of materials you were offered.

3. Provide details about how you were approached. Did you see the person's face or ever get in touch with a person? Did they leave behind a phone number or any contact information? What characteristics of the transaction made you uneasy?

To file a complaint with the Securities Division:

You can either call the Investor Protection Hotline, fill out a complaint form online, or send it to our office. Here are the general steps for filing complaints:

1. Obtain a complaint form.
Online: https://www.sos.mo.gov/CMSImages/SecuritiesMIPC/complaint_form.pdf
Phone: (800) 721-7996
2. Please answer each question on the form. If a question does not apply to your particular situation, write "n/a" for "not applicable."
3. Be as clear and specific as possible when answering questions. The more specific facts we have, the better we can investigate the situation. When you can, try to remember when each interaction you had with the person or firm occurred and what you did next, and present them in that order, with dates.
4. Make copies of any documents you have, both those that came from the person who offered the investment and those you have obtained from another source while reviewing the investment, and send a copy of each document along with your complaint form. Keep the original documents so you can refer to them later.
5. You can submit your form electronically or by mail. Either way, please be sure you mail us all accompanying documents. These documents are important, because they help us better track and investigate the individuals offering the investments.

By mail: Office of Secretary of State
Missouri Securities Division
PO Box 1276
600 West Main Street
Jefferson City, MO 65102

By email: securities@sos.mo.gov

Once a Complaint is Received by the Division:

When a complaint or tip is received, an attorney in the Enforcement Section will evaluate the complaint and information you provided. The Enforcement Section may open an investigation and assign the matter to an investigator or make other attempts to resolve the matter. Even if the Securities Division does not launch a formal investigation, you might be referred to, and should consider talking with, a private lawyer, or perhaps another state agency.

Please note that while the Enforcement Section might take up your case, such action is being taken on behalf of the state, and the Securities Division's attorneys cannot represent you or provide you legal advice. While some enforcement actions could lead to restitution or a return of your money, the majority of cases do not. Private counsel can better help you directly pursue your own interests and the recovery of your losses, and could suggest arbitration, a lower cost alternative to civil litigation. FINRA can provide booklets on arbitration.

To learn more about arbitration, contact:

Financial Industry Regulatory Authority (FINRA)

12 Wyandotte Plaza

120 West 12th St., Ste. 800,

Kansas City, MO 64105

(816) 421-5700

www.finra.org

Senior Investors

In 2009, the Senior Investor Protection Act was passed into law, creating enhanced penalties for fraudulent acts targeting seniors. Moreover, on August 28, 2012, the State of Missouri Legislature enacted a law protecting seniors and other vulnerable citizens from financial exploitation by deeming such conduct as felonious. The Missouri Securities Division has received numerous complaints from seniors and other vulnerable citizens alleging fraud and unsuitable investment recommendations.

A Guide to Identifying Risks

Wise and Safe Investing

Because your livelihood could be at risk, it's important to educate and protect yourself from unscrupulous brokers or others offering questionable investments. Your best approach is to understand how investments work, what questions to ask before making investment decisions and who to call before entrusting anyone with your hard-earned money.

Define your financial goals.

Map out your financial goals before you meet with a financial planner, broker, investment adviser or any other investment professional. Going to the experts in certain instances will help you decide how to invest, but you should first have a firm grasp of your short- and long-term goals and needs. How much income will you need to meet fixed expenses, apart from any pension or Social Security income? Do you have children or grandchildren to educate? Are your older parents in need of care? How is your own health? You need to determine your own budget needs and assess your ability to tolerate risk first, and then decide what kinds of investments would best fulfill these goals.

This also means you should take time to understand the various investment products you might be considering. If you receive a lump-sum pension payment or an early retirement pay-out, you might feel pressure to invest it quickly in order to avoid adverse tax consequences. Sound investing requires careful consideration. If you need time to fully explore your options, consider putting funds in a money market account or savings account, and then invest once you feel ready to do so. Otherwise, you might be susceptible to high-pressure sales tactics of those who promise to “take care of your problems for you.” A quick fix is not the answer in this situation.

Your money is too important to lose!

Know your investment professional.

Always take time to interview two or three investment professionals before settling on the one who seems to best understand your needs. Don't assume that a broker who sells investments on the premises of a bank is part of the bank or is selling products protected by FDIC insurance.

Once you have entered into a relationship with an investment professional, it is recommended you contact the Missouri Securities Division to inquire about registration of the individual, as well as any past deficiencies that may have been noted and/or investigated by the Division. You can reach our office by phone at 800-721-7996. You should proceed cautiously if doing business with financial professionals who have an established record of state, federal or self-regulatory disciplinary actions, negative arbitration decisions or civil litigation judgments. The staff at the Securities Division will gladly review your investment professional's case history for you.

Recognize that a broker who goes by the title "financial consultant," "senior specialist" or "investment counselor" does not necessarily have any training or expertise other than that of selling stocks and bonds. If you are working with an investment adviser, ask to see both parts of the Form ADV. Part One can be helpful, as it provides you with their disciplinary history, which could raise important red flags. The adviser is required to give you Part Two, which sets out their method of compensation, education, areas of expertise, investment strategies and business methods. This should correspond with the information provided by the Securities Division.

Understand your investments.

Focus on the whole range of an investment's characteristics in your decision-making, not simply on promises of a high return. Before you make any investment, you should understand the cost, degree and nature of the risks, investment goals (e.g., income with a high degree of safety), performance history and any special fees associated with the investment. Never assume that your investment is federally insured, low-risk or guaranteed to deliver a certain return.

You should **not** rely on oral statements for assurance. Get it in writing and make sure you understand the information you are given. Once you have that information, check it against your own goals and risk tolerance to see if the recommended type of investment is a good fit.

The most detailed source of information on an investment product is the prospectus (or similar offering document). Unfortunately, most prospectuses are far too long and too technical for anyone other than a sophisticated investor to comprehend. However, you don't have to read every word to understand the nature and risk of the investment. Pick out the essential information provided in the document to determine if the product is right for you. For a mutual fund, for example, make sure you get answers to the following:

- What are the fund's goals and investment strategies?
- What are the fees and other costs involved, and how do

they compare to similar funds?

- How are the costs determined?
- What is the fund's performance and management history?
How does it compare with similar funds?
- What are the risks involved with each of the investments in a bond or mutual fund? How does it compare with similar funds?
- Who makes investment decisions for the fund?
- Whom can you call for more information?

These are just some of the questions to ask about a mutual fund. Your local library is a good source for publications and online resources on investing. For example, the Morningstar® research firm publishes detailed analyses of investment products. Missouri's Securities Division and the Securities and Exchange Commission also have brochures providing information about investments.

Know the fee structure.

Understand how your investment professional is making money by selling an investment. If you truly want objective advice, you have to be prepared to pay for it. A fee-only financial planner will charge you a certain amount up front but does not earn income based upon what recommendations he or she makes to you.

On the other hand, brokers and many financial planners are paid through commissions, which means that they get a percentage of the money you invest. For example, if you give them \$5,000 to invest in a mutual fund, their commission might be 4 percent, or \$200, making your actual investment in the fund \$4,800. When the commission is deducted from your investment, you lose not only that money, but the investment income it would have earned over time. A good rule to remember is that the amount of commission varies by the type of product and the risk associated with the product. So, in most cases, the higher the risk, the higher the commission.

Just because a broker calls himself a "financial analyst" or "investment consultant" does **not** mean that he provides objective financial advice. **Do not confuse a sales pitch with impartial advice.** Be wary of brokers who seem overly eager to put you into an in-house mutual fund or in unfamiliar exotic investments. Ask the broker if he or she will receive additional commissions or other incentives (such as a prize or trip) for selling you a certain product.

Beware of uninsured products sold on bank premises.

Exercise particular caution when buying uninsured investments on the premises of a bank. Although a bank may provide you with more convenience and be less intimidating than a brokerage firm, it does not provide you with any more assurance against the possible loss of principal in an uninsured investment. In fact, the brokerage firms affiliated with banks sometimes offer only a limited range of investment options and could be prone to pushing their own products.

While you might feel more comfortable dealing with your bank (or someone else doing business there), you should not let convenience guide your decision about where to invest. Securities sold by a bank are not insured by the FDIC. Government mutual funds and government bond funds do not carry any government insurance against loss.

Monitor your account statements.

Make sure you fully understand your account statements. Your account statement should reflect only the pattern of investing **you** have authorized. If you note a discrepancy, raise the problem immediately with your broker or financial professional, and, if necessary, the branch manager who supervises the broker.

Review your account statement to see how your investments have performed and how much they are costing you in terms of commissions and fees. Because you might not be able to find this information on your account statement, contact your financial professional and ask that these be calculated for you, and have the results provided to you in writing. Do **not** work with a financial professional who is unwilling to do this, or who claims to be unable to provide this information.

Don't be embarrassed to ask questions about the meaning of unfamiliar terms and abbreviations that appear on your account statement. An investment professional who is unwilling to take the time to answer your questions is probably **not** a trustworthy manager for your life savings. Account statements are your primary tool as an investor for policing your investments, so make sure to take full advantage of them.

Call the Investor Protection Hotline.

The Missouri Securities Division offers a toll-free Investor Protection Hotline that anyone can call to obtain information about an investment, stockbroker or investment adviser **before** you hand over any money: **800-721-7996**.

Don't Make These Mistakes

The following scenarios, based on some common fraud schemes, illustrate sample situations, and then ask you what's wrong and what warning signs you can identify.

Harry is 70 years old. He retired from a company he worked at for over 20 years. He and his wife Ann live in the same house they bought when they were married. Harry made some money in company 401(k)s and other small investments throughout his life. They live comfortably, but worry what they have might not be enough to last. In fact, Harry would love to leave something for their children and family in the future.

People of all ages are at risk for investment fraud, but because Harry and Ann are seniors, they face increased risk.

Scenario I: Telemarketing Investments

Ann receives a call from a gentleman who asks her to send money immediately for a stock investment in a company Ann has never heard of. He tells her to give him a credit card number, her birth date and social security number. He says the offer is only for a limited time and that the stock is "hot" and if she waits, it will be too late to get in on the deal. He gives her a bogus address and telephone number. Even when she asks, he does not provide information about his credentials or details of the investment. Ann thinks about how great it might be to make a little money.

What's wrong here?

This person used telemarketing to sell a risky investment option and will likely take advantage of people over the phone to receive money fast.

Warning signs:

- Insists money be sent immediately
- Wants credit card number over the phone
- Wants birth date and social security number over the phone
- Says , "Make your contribution now or it's too late"
- Avoids or refuses to answer questions
- Doesn't give a good explanation of the stock or the company selling the stock
- Doesn't explain the risk involved

Scenario II: Free Lunch Seminars

Harry and Ann have been invited to attend a free lunch at a nice local restaurant to hear information about retirement and tax planning. When they attend, the seminar leader makes broad claims promising that if they invest in his product now, they will enjoy high returns and no risk. Little written information is available to attendees.

The leader approaches Harry and Ann individually after the presentation and asks personal questions about their marriage, finances, current investments, past work experiences and home. He probes and then tells them he will be going out of town soon to offer the opportunity to others, and they won't have the opportunity to contact him if they don't act today. He tells them all of his investors are making money and are "very happy." The seminar leader speaks quickly and is very enthusiastic. He promises that all of their questions will be answered when he sends them the paperwork later. Harry and Ann get excited about an opportunity to quickly increase their retirement savings.

What's wrong here?

This person used a free lunch or seminar to engage in high-pressure sales to people who see the event as an incentive to invest and feel they are being treated specially.

Warning signs:

- The word "free"
- Promises of high returns and no risk
- No brochures or information; must take leader's word
- Asks personal questions
- Going out of town, limited-time offer, limited contact
- High pressure for immediate decision
- All other investors are described as "very happy"
- Fidgets, talks at a high rate of speed or seems overly excitable
- Answers questions vaguely or refuses to answer questions

Scenario III: Real Estate Investments

Harry and Ann have been offered a chance to participate in a new real estate opportunity offered to a select group of people in their area. The individual offering the investment

promises that if they invest now, their money will get returns in less than a year and is guaranteed to be risk-free. He shows slides of photos of condominiums on a beach but offers no details about the properties. He tells them this is a limited opportunity, and only a few investors will get this chance. Harry and Ann consider this an opportunity to vacation and get in on the ground floor of a high-return real estate investment.

What's wrong here?

Investments in real estate are often viewed as a “sure thing” with little downside risk. But putting your money into real estate investment contracts or ventures can involve significant risk. Investment scams featuring real estate are on the rise in Missouri.

Warning signs:

- Offered only to a “select group of people”
- Must invest now
- Make money in less than a year
- Claims that the investment is “risk-free”
- Offers few details about the logistics and layout of the property
- Limited opportunity

Ask questions.

Never be afraid to ask questions at any stage in the investment process. You are in control of your money, even if you hire an expert to help you manage it. **Be careful in deciding to sign over discretion for your account to your broker,** as his or her idea of a “good trade” might not be in your best interest. You have every right to ask a financial professional why he or she is making a certain recommendation to you, what the alternatives are, what the risks are and how much he or she will be paid for the transaction. If you are uncertain about a product, or what you are buying, ask questions until you understand. If someone tries to assure you by stating that the uninsured investment is as safe as the “money in your pocket,” it is time to walk out the door...while your money **is** still in your pocket!

The Secretary of State's office takes reports of suspicious activity seriously. We investigate complaints and welcome tips. If you think you have been defrauded, please call our office and send a complaint form along with any other relevant documents. You can call the **Investor Protection Hotline at 800-721-7996**. You're not alone; annually, we receive a number of complaints from senior investors. You could even save someone else from a bad situation.

The 3 Knows of Investing

So you don't spend your day tracking business journals and stock tickers...

You're still an investor.

People throughout the state of Missouri invest their earnings every year in a number of different ways, including through their 401(k) at work, an IRA, direct investments in stocks and bonds, mutual funds or even annuities. Missourians have many different reasons for investing, from turning a quick profit to investing for retirement. There are hundreds of methods and strategies for investing, and while each has different features, it is crucial to realize that in any investment, there is the possibility that you might lose money.

Because your financial well-being is at risk, it's important to educate and protect yourself from people who might take advantage of you. The best approach for protecting yourself is to understand how various investments work, what questions you need to ask of people offering you an investment, and who you can contact for information and resources when making crucial decisions.

Our office is here to provide education, to protect you from people who pitch a questionable or fraudulent investment and to investigate any misconduct that may occur. With the right information, you can make wise, safe and informed decisions.

1

Know Yourself & the Risks of Investing.

In making wise investment decisions, you should think about your current and future needs, as well as the risk you can tolerate. Ask yourself these questions about your goals and your nature:

- What do I want to receive from the investment?
- Am I investing long-term or short-term?
- How will this affect my future lifestyle and spending habits, and in terms of retirement, what will be left for my family and other plans?
- When do I want to withdraw the money?
- How much will I invest?
- How often do I plan to contribute to my investment account each year?
- How much loss can I tolerate?
- What current debt, bills and payments am I making that might affect my ability to contribute?
- What might I do with the money once I get it?

As an investor, you are putting money into an ever-changing global financial landscape where world events, large economic fluctuations, inflation, interest rates and currency value changes all impact one another.

While these twists and turns might lead to strong performance by some investments, other investments might be negatively impacted by those same factors. A particular securities instrument shooting to record high values one day could be undercut by an unforeseen factor and fall in value the next. In the constantly changing market, the possibility

that you could lose your money is always present. This is commonly called risk.

Before you invest your hard-earned money, you'll want to determine just how much risk you are willing to take over time.

Prior to investing, you'll want to think about any expenses you have now and those you're likely to have in the future. These will help determine what type of investments you should consider. In addition, many investment advisers advocate diversification, meaning spreading your investment dollars among a variety of different investments and products, with the idea that if one investment loses money or decreases in value, a different investment with different features might **make** money, offsetting the losses.

Understanding Types of Risk

Here's a guide to help decide what kind of risk you'd like to take. Consider how these statements might describe your feelings:

- **Safety (low risk):** I do not want to lose my hard-earned money, so I want a plan where there is little chance I could lose my original investment. I will get only modest returns.
- **Income (low to moderate):** I'd like to make a steady stream of money and receive regular payments. I may or may not lose the money I originally put up. I might save on taxes this way.
- **Growth (moderate to high):** I have a long time to work and invest, and I have long-term growth goals and will wait for my money to grow in the market. I know this involves more risk and might even cause me to lose money in the short-term.
- **Speculation (high):** I like to do short-term trading and don't mind looking at new and unproven companies. I understand that this means a lot more risk and perhaps larger gains or losses over the short-term than with other investment options. I understand that I might even risk my entire investment.

It's important not to take the task of choosing a financial adviser lightly. You should seek a person whom you trust and from whom you feel comfortable asking advice. The more your financial professional knows about you, your goals and your finances, the better you will be served. This means your adviser will have access, granted only by you, to your private financial information. You'll want to stay in control in order to avoid involvement with con artists, shady advisers and others who don't have your best interests in mind.

Don't let anyone pressure you into buying or signing anything. You don't have to do anything or give anyone your money, and you can always say "No." You should never feel guilty about leaving an uncomfortable or high-pressure situation.

Tips on Choosing an Adviser

Here's how to get comfortable with your search for a trusted financial adviser:

- 1) Get some suggestions from people you trust.** Ask other people you know, such as family, friends, colleagues, neighbors, professional groups you're involved in, your accountant or attorney. Their ideas might help you with your search.
- 2) Do your homework.** Find out from the adviser how long they have been in the industry. Read any materials you can find, including company brochures, reports, annual reports and any other information. Check with the Financial Industry Regulatory Authority (FINRA) and call the Missouri Investor Protection Hotline at (800) 721-7996, to make sure your broker or investment adviser is properly registered, and to learn about complaint history, regulatory actions, civil suits or criminal records. Almost anyone can use the title of adviser, so check the education, registration, licenses and professional designations claimed by anyone you are considering hiring as your adviser.
- 3) Schedule an in-person interview to evaluate their offices and services.** At the first meeting, which should take place for free, you'll want to find out about services offered. The type and level of services varies among different companies. Find out who will be your adviser specifically, his or her qualifications, degrees, designations and professional affiliations. Be sure to double-check those claims with the Securities Division or another regulator. Ask whether the person will be paid by an hourly rate, a commission or both. Inquire about extra fees or costs. Ask

for references from current customers. See that the person advises you of the key risks involved with the investment you are considering, rather than talks about how investing with them is a “sure thing.” Finally, get all information you hear in writing and make sure you feel comfortable with the professional.

4) Shop around for the best fit. Meet with several professional advisers and ask the same questions of each. Compare the responses. Don’t hesitate to schedule more than one meeting with the same adviser. One meeting might not be enough to judge qualifications and experience. Ask new questions at subsequent meetings and make comparisons between advisers.

Securities agent and investment adviser representative are very specific professional designations that can only be claimed by professionals who are registered with the state of Missouri and have met very specific qualifications, including passing scores on certain tests and affiliations with registered firms. If a professional is not registered, or doesn’t know what that means or whether or not he or she meets these qualifications, you should be wary. While certain investment products can be sold by individuals who are not registered with the Securities Division, only those professionals registered with our office have been reviewed and approved by Missouri’s securities regulators.

Here is a list and explanation of some of the advisers and professionals whose advice and expertise you might want, and their functions and some special designations (these are not intended to be a complete list of designations or duties and the Missouri Secretary of State’s Securities Division does not participate in the approval of, or endorsement of, these designations):

Stockbroker: buys and sells stocks, bonds, annuities and mutual funds at brokerage firms. They are also commonly referred to as securities agents or registered representatives. Sometimes, they can help with parts of your financial plan. They are licensed and registered by the state and usually earn commissions. **Designations:** *Certified Financial Planner, CFP; Certified Financial Analyst, CFA; Chartered Financial Consultant, ChFC.*

Investment adviser representative: provides advice on investments and securities beyond the completion of transactions (like a broker), but might not be registered to perform broker duties. Investment advisers can help implement the financial plans that you make with a financial planner. Investment advisers must register with the Securities Division and FINRA. **Designations:** *Investment Adviser Representative, IAR.*

Financial planner: matches your life goals, your needs, budget, investments, retirement plans and other income, in combination with tax information to come up with a customized plan for you. Financial planners must be licensed by the state if they want to sell you insurance and can also be registered as “investment advisers.” **Designations:** *Certified Financial Planner, CFP; Registered Financial Planner, RFP; Registered Investment Adviser, RIA.*

Accountant: can give you advice on taxes, help you prepare/submit tax returns, plan for taxes before you invest and review your options. Accountants are not necessarily registered to give investment advice or conduct securities transactions, and often do not have special financial or investment training. They might work for a large accounting firm or a small partnership. **Designations:** *Certified Public Accountant, CPA.*

Insurance agent: talks to you about risk management and can sell investment products, including life insurance, health insurance and annuities. They are licensed by the Department of Insurance, and if they want to advise you to buy or sell securities such as mutual funds, stocks or bonds, they must be registered with the Securities Division. They earn commission. **Designations:** *Chartered Life Insurance Underwriter, CLU; Certified Professional Insurance Agent, CPIA; Certified Insurance Counselor, CIC.*

3

Know Your Investment.

When you talk to investment professionals, keep in mind there are a number of different ways to build your financial plan. All investments vary as to where the money is invested, how you receive a return and what kind of return you receive. Here are a few different types of investments:

Stocks represent a share of ownership in a corporation. With certain shares, called **common stock**, you have the right to vote at stockholders’ meetings, sell the stock, purchase additional shares the first time they become available and take part in certain dividends. **Dividends** are payments made to stockholders when profit is earned. Other stock, called **preferred stock**, allows you to be the first one to be paid dividend payments, but these are not as readily transferable and usually offer more modest growth.

Bonds are usually issued by corporations and governments, and represent a debt payable by that company or government to the bondholder. These are essentially a way for the issuer to borrow money from you, the buyer. You buy a bond certificate in an amount that the issuer sets.

In addition, the organization sets a fixed interest rate for the

bond and a maturity date. At the maturity date, the person who owns the bond can redeem it for face value and any interest that has been built. Bonds carry ratings for quality comparison, based on the relative strength, track record and performance of the issuer. Many government bonds feature certain tax advantages. Of course, you could lose your money if the company should go bankrupt; however, you would be paid before any stockholders.

Mutual funds allow a group of investors to pool their money in one place to create greater buying power. These funds consist of many different securities that have different earnings; your portfolio can be changed often to maximize earnings and to ensure diversification. Mutual funds make money for you by earning profits, interest on reinvestments and selling investments that increase in value. As a holder, you could be investing in stock funds, bond funds or money market funds.

Variable annuities have become part of the retirement and investment plans of many Americans, and are essentially a combination of mutual funds and insurance products. An investor in a variable annuity gets both a guaranteed payment from investments at a set date and the death benefit of an insurance product. But, variable annuities are very complex and often have high fees, commissions, restrictions on access to your money and substantial penalties for early withdrawal.

Remember, investing in securities carries risk, so you could lose or gain money throughout all stages of your investment, depending on how the markets perform.

Reviewing Your Choices

You'll want to weigh the advantages and disadvantages of each of the different investment products or methods you are considering. Ask your financial adviser:

- What is my estimated return on the investment? Will it change over time?
- What fees and costs are associated with making the investment?
- How are you paid – in commission, a flat fee or both? How much of that commission and fee comes out of my investment?
- How long do I have to wait to withdraw the money? Are there penalties involved with taking earnings out early?
- What are my tax benefits and consequences?
- What kind of tax consequences are possible if and when I withdraw the earnings?

Protecting Yourself from Fraud: Red Flags

Your investment is for your financial well-being, so when making investments **you should drive the effort**, not the adviser. His or her anxiety to get you “signed up” right away should not in any way hurry or force you into an important decision. Many people spend months researching the purchase of a \$20,000 car, but think nothing of making a much larger investment in the markets with much less research and thought.

You’ll want to look for suspicious activity and report any issues. When getting to know your investment, also make sure you look out for yourself:

- 👉 **Buzzword traps:** Certain words can entice a person to invest. Don’t fall into a verbal or written word trap that contains: invest now, invest today, this offer won’t be available for long, this offer is only available to you or a select group of people, you can’t lose, free, no risk (low risk is okay).
- 👉 **Adviser switching or anonymous recipients:** You should see the person who will be investing your money. If they send a “courier” to your house or you’ll be speaking with a different person whose information and credentials you don’t yet have, be careful. If a potential adviser insists on doing all business over the telephone and refuses to meet in person, be wary.
- 👉 **Money control:** When investing with a registered investment adviser or broker, your investment funds should be paid to the firm, not the individual representative or agent. If your adviser asks you to make a check payable to him or her, or insists on receiving cash, be wary. If you ask your broker or representative about the status or location of your money, and he or she cannot or will not give you an answer, you should be concerned.
- 👉 **Paperless transactions:** Every interaction between you and your adviser should be in writing, including anything that is requested of you, any information you provide and especially anything your adviser tells you. You have a right to copies of each and every document and paper related to your investment accounts. Registered agents and representatives are required to provide you with information about their firm, including a statement of fees and services. If an adviser cannot or will not provide written documentation to you, consider another agent.

Read your prospectus and statements. All investments are described in a prospectus, which you should insist on receiving. Read the prospectus, disclosure statements, and all marketing and other materials carefully. If you decide to invest, make sure there’s a written record of the agreement

and that you have a copy. **Do not sign a blank statement or other document, ever!**

Do not do business with someone who refuses to provide frequent statements and reports of how your investment performs. Those reports are issued at least annually, and usually more often than that. Read and reconcile those statements to make sure you understand their contents. Ask questions if confusing or conflicting information arises.

Using Personal Investor Education Resources

Here are some resources you can use to find information regarding professional registration, regulation standards and investment alternatives.

In addition to these, you might want to check investment magazines, newsletters and advisories. Keep in mind that not all of these resources list all possible registered companies and that updates to the web sites may be made only periodically.

North American Securities Administrators Association, Inc. (NASAA)

(202) 737-0900

www.nasaa.org

Financial Industry Regulatory Authority (FINRA)

www.finra.org

Investing Online Resource Center (IORC)

www.investingonline.org

Investment Adviser Public Disclosure web site (IAPD)

Note: only people who register electronically are on this site; a number of registered businesses may not be listed. Access through the SEC website.

www.adviserinfo.sec.gov/IAPD/Content/lapdMain/iapd_SiteMap.aspx

Securities Investor Protection Corporation (SIPC)

www.sipc.org

Using Resources to Report Issues

If you have been the victim of securities fraud, or are concerned that you have been taken advantage of in making an investment, contact one of these offices. Government regulators and self-regulating organizations can launch investigations, impose penalties and, most importantly, pursue and secure a return of part or all of your money in some instances. Additionally, some violations are criminal in nature and might be prosecuted in Missouri or Federal courts.

While some enforcement actions could lead to restitution

or a return of your money, the majority of cases do not. Providing information on your situation might, however, prevent others from encountering the same problems.

To report any issues you might have, you can contact the following offices:

Office of Secretary of State John R. Ashcroft

Missouri Securities Division

Investor Protection Hotline: (800) 721-7996

www.MissouriProtectsInvestors.com

Financial Industry Regulatory Authority (FINRA)

Call Center (301) 590-6500

www.finra.org

U.S. Securities and Exchange Commission (SEC)

Consumer Information Line

(800) 732-0330

www.sec.gov

Once you know what kind of investor you are, know your adviser, and know the features of your investment, you'll rest easier knowing you've taken steps to secure a comfortable financial future.

Variable Annuities

What is a Variable Annuity?

Variable annuities are complex investment products, often described as mutual funds wrapped in an insurance policy. Under a variable annuity contract, an insurance company agrees to make periodic payments to you, beginning either immediately or at some future date. You purchase a variable annuity contract by making either a single “purchase payment” or a series of purchase payments.

Variable annuities have become part of the retirement and investment plans of many Americans. But, before you buy a variable annuity, you should know that typically, variable annuities are long-term investment options. Do your research on the company and the product, and get advice from someone you trust about whether a variable annuity is right for you, as the risks naturally imposed by the purchase of this product are significant and worthy of further examination and consideration.

How Does a Variable Annuity Work?

A variable annuity offers a range of investment options. The value of your investment as a variable annuity owner will vary depending on the performance of the investment options you choose. The investment options for a variable annuity are typically mutual funds, known as subaccounts, that invest in stocks, bonds, money market instruments or some combination of the three. Remember, variable annuities are designed to be long-term investments, to meet retirement and other long-range goals. Variable annuities also involve investment risks, just as all investments do.

- 1. Periodic payments:** Variable annuities let you receive periodic payments for the rest of your life (or the life of your spouse or designated beneficiary). This feature offers protection against the possibility that, after you retire, you will outlive your assets.
- 2. Death benefit:** Most variable annuities have an enhanced death benefit. This means that if you die before receiving any payments, the person whom you have designated to receive this money is guaranteed to receive a specified amount. Assuming there is still an account value, this amount typically is at least the amount of your contributions.
- 3. Tax deferral:** Variable annuities are tax-deferred, which means you pay no taxes on the income and investment gains from your annuity until you take out your money. You may also transfer your money from one investment option to another within a variable annuity without paying tax at the time of the transfer. When you take your money out of a variable annuity, however, you will be taxed on the earnings at ordinary income tax rates.

In general, the benefits of variable annuities, including tax deferrals, will outweigh the costs only when considered as long-term investments to meet retirement and other long-term goals.

While variable annuities have tax benefits, be sure to compare them to other retirement plans. For many investors, it may be advantageous to make the maximum allowable contributions to IRAs and 401(k) plans before investing in a variable annuity.

In addition, if you are investing in a variable annuity through a tax-advantaged retirement plan (such as a 401(k) plan or

IRA), **you will get no additional tax advantage** from the variable annuity. The tax rules that apply to variable annuities can be complicated. You might want to consult a tax adviser about the tax consequences **before** you invest.

Variable Annuity Phases

A variable annuity has two phases: an accumulation phase and a payout phase.

The Accumulation Phase: In this phase, you make purchase payments to the account, which you can allocate to a number of investment options, commonly referred to as "subaccounts." Depending on the fund's performance, the money you have allocated to each investment option will increase or decrease over time; however, most Insurance companies will allow you to reallocate your subaccounts up to twelve times per year without incurring a fee, should you find that you are not comfortable with the allocation and/or your investments are underperforming and decreasing the value of your account.

The Payout Phase: At the beginning of this phase, you can receive a return of your purchase payments plus investment income and gains (if any) as a lump sum payment, or you might choose to receive them as a stream of payments at regular intervals (generally monthly). If you choose to receive a stream of payments, you have a number of choices of how long the payments will last. During the payout phase, your annuity contract could allow you to choose between receiving payments that are fixed in amount or payments that vary based on the performance of the mutual fund investment options.

What Charges and Fees Apply?

You will pay several charges and fees when you invest in a variable annuity. Be sure you understand all the charges before you invest. **These charges will reduce the value of your account and the return on your investment.** Often, they will include the following:

Surrender charges: A surrender charge is a type of sales charge or penalty you will pay if you withdraw your money from a variable annuity within a certain period after purchase (typically six to eight years).

Mortality and expense risk charge: This charge is equal to a percentage of your account value (typically about 1.25% per year) and compensates the insurance company for risks it assumes under the annuity contract.

Administrative fees: These charges cover record-keeping and other administrative expenses of the insurance company and might be charged as a flat account maintenance fee (usually \$25 or \$30 per year) or as a percentage of your account value (typically about 0.15% per year).

Underlying Fund Expenses: These fees and expenses are imposed by the underlying mutual fund investment and will likely be paid indirectly by you. These fees are taken annually as a percentage of your assets invested in the fund.

Charges and Fees for Other Features: Special features offered by some variable annuities, such as a stepped-up death benefit, a guaranteed minimum income benefit or long-term care insurance, often carry additional fees and charges.

Note: *The GMB, or guaranteed minimum income benefit, guarantees a particular minimum level of annuity payments made to you, even if you do not have enough money in your account (perhaps because of investment losses) to support that level of payments.*

Other charges, such as initial sales loads, or fees for transferring part of your account from one investment option to another, might also apply. Be sure you are aware of **all** applicable charges and also check the prospectus for a description of the charges.

What Do You Need to Know?

- 1. Product Knowledge:** Learn all you can about how the annuity works, the benefits it provides and the charges you will pay. Read the prospectus, which contains important information including fees and charges, investment options, death benefits and costs of the annuity compared to other variable annuities and other types of investments, such as mutual funds.
- 2. Suitability:** Make sure an annuity is something you can afford and is an appropriate investment for your age and financial situation. If you are over 65 years old, annuities are probably not for you.
- 3. Volatility:** Consider the amount of risk you can tolerate. **Risk** means you could lose some or all of your money. The account value of some annuities might decline if the underlying investment performs poorly.
- 4. Liquidity:** How **liquid** your money is means how readily you can transfer from one fund to another or take money out for use. Find out how long your money will be tied up. Most annuities have expensive surrender charges if you try to withdraw money before the end of the surrender period. In addition, due to IRS regulations, you will not be able to access your money prior to age 59 ½ without a tax penalty.

- 5. Rate of Return:** Watch out for introductory or teaser rates of return that give you the impression that your return will be significantly higher than the actual rate of return specified in the contract.
- 6. Professional Advice:** Thoroughly check out anyone who makes a variable annuity offer. Discuss any potential variable annuity purchases with a stockbroker, attorney, accountant or financial adviser you trust **before** you buy.
- 7. Rollover:** Before cashing in one annuity to purchase another, make sure the benefits of the purchase outweigh the costs, such as additional commissions, surrender costs, penalties and tax liabilities. Switching annuities frequently benefits the seller more than the investor.
- 8. Optional Features:** Consider whether you can purchase additional benefits, such as long-term care insurance, as a separate product at a better price.
- 9. Death Benefit:** Understand what happens to the proceeds of your annuity upon death. Not all annuities provide an enhanced death benefit.
- 10. Know your salesperson:** Do not do business with anyone who tries to scare or pressure you to buy. You should be completely comfortable with the product and the salesperson before you commit any of your hard-earned money.

What About Tax-Free "1035" Exchanges?

Section 1035 of the U.S. tax code allows you to exchange an existing variable annuity contract for a new annuity contract without paying any tax on the income and investment gains in your current variable annuity account. These tax-free "1035" exchanges can be useful if another annuity has features that you prefer, such as a larger death benefit, different annuity payout options or a wider selection of investment choices.

If you are thinking about a "1035" exchange, compare both annuities carefully. Unless you plan to hold the new annuity for a significant amount of time, you could be better off keeping the old annuity, as the new annuity typically will impose a new surrender charge period. You will also want to consider the commissions and any increased fees you'll have to pay for the new annuity.

In addition, talk to your financial professional or tax adviser to confirm the exchange will be tax-free. If you surrender the

old annuity for cash and then buy a new annuity, you will have to pay tax on the surrendered annuity.

What are Bonus Credits?

Some insurance companies are now offering variable annuity contracts with “bonus credit” features. These contracts promise to add a bonus to your contract value upfront based on a specified percentage (typically 1-5%) of purchase payments. The downside, however, is higher expenses that can outweigh the benefit of the bonus credit offered.

Frequently, insurers will charge you for bonus credits in one or more of the following ways: higher surrender fees, longer surrender periods, high administrative fees or high mortality and expense risk charges.

What Questions Should You Ask Before You Invest?

Before you decide to buy a variable annuity, consider the following questions:

- How much of your investments are you willing to risk?
- Do you intend to remain in the variable annuity long enough to avoid paying any surrender charges if you have to withdraw money?
- If a variable annuity offers a bonus credit, will the bonus outweigh any higher fees and charges that the product may charge?
- Will you use the variable annuity primarily to save for retirement or a similar long-term goal?
- Are you investing in the variable annuity through a retirement plan or IRA (which would mean that you are not receiving any additional tax-deferral benefit from the variable annuity)?
- Are you willing to take the risk that your account value might decrease if the underlying mutual fund investment options perform badly?
- Do you understand all of the features of the variable annuity?
- Do you understand all of the charges and fees of the variable annuity?
- Are there features of the variable annuity, such as long-term care insurance, that you could purchase separately for less money?

- Have you consulted with a tax adviser and considered all the tax consequences of purchasing an annuity, including the effect of annuity payments on your tax status in retirement? For instance, annuity payments could combine with other retirement income to lift you into a higher-than-expected tax bracket.
- If you are exchanging one annuity for another one, do the benefits of the exchange outweigh the costs, such as any surrender charges you will have to pay if you withdraw your money before the end of the surrender charge period for the new annuity?
- Are you purchasing from a seller you trust and feel comfortable with all of the information you have been provided?

Ask all of these questions and any others that would be helpful to you. Keep records of your answers so there is no confusion later. Financial professionals who sell variable annuities have a duty to advise you whether the product they are trying to sell is suitable for your particular investment needs.

You might also want to research the financial strength of the insurance company that sponsors any variable annuity you are considering. This can affect the company's ability to pay any benefits to you.

Your most important source of information about a variable annuity's investment options is the prospectus. Request this for the mutual fund investment options and read it carefully. The prospectus should provide you with information such as the fund's investment objectives and policies, management fees and other expenses that the fund charges, the risks and volatility of the fund and whether the fund contributes to the diversification of your overall investment portfolio.

Variable annuity contracts typically have a "free look" period of 10 or more days, during which you can terminate the contract without paying any surrender charges and get back your purchase payments (which may be adjusted to reflect charges and the performance of your investment). You can continue to ask questions to make sure you understand your variable annuity before the "free look" period ends.

Remember, it's your money and your decision. Think before you invest your hard earned money; however, these guidelines can help you make an informed decision.

Vulnerable Citizens Services Unit

- In an effort to protect Missouri's senior citizens and others affected by financial exploitation, Missouri Secretary of State Jay Ashcroft has formed a **Vulnerable Citizens Services Unit committed to protecting those most vulnerable to securities fraud.**
- Fraud often comes with a smiling face, perpetrated not only by strangers but also family members, care givers and sometimes even financial industry professionals.
- The Vulnerable Citizens Service Unit, through investor education initiatives, will **seek to educate citizens about the risks associated with investing.** Properly educating investors will help them **make informed decisions about their money.**
- If you suspect securities fraud has affected you or a loved one, contact the Vulnerable Citizens Services Hotline at **855-653-7300.**



Jay Ashcroft is Missouri's 40th Secretary of State, serving areas such as business, investor protection, operating the State Library and State Archives, and as the State's Chief Elections Official.

Secretary Ashcroft earned bachelor's and master's degrees in engineering management from Missouri University of Science and Technology, and is a graduate of St. Louis University School of Law. He holds multiple certifications in the challeng-

ing arena of citizen privacy and data protection, essential to securing our state's elections. Secretary Ashcroft's vision includes rebuilding confidence in our elections, restoring relationships with local election authorities, and working to streamline our business laws and reduce government red tape to attract new jobs in Missouri.

Jay and his wife Katie have four children, three sons and one daughter.

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